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October 15, 2002

BY ELECTRONIC FILING

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: *Ex Parte Presentation*
In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers,
CC Docket Nos. 01-338, 96-98, 98-147

Dear Ms. Dortch:

On October 15, 2002, Jeff Sporn, John Daley, Larry Rogers, Dennis Guard and Kimberly Scardino of WorldCom, Inc., and Ruth Milkman, Lawler, Metzger & Milkman, counsel to WorldCom, met with Cathy Carpino, Michael Engel, Jeremy Miller, Daniel Shiman, Robert Tanner and Julie Veach to discuss the above-captioned proceeding. In this meeting, WorldCom described unbundled network elements required for competitive provision of DSL, as discussed in previous written submissions in this proceeding, and described in the attached presentation.

Pursuant to section 1.1206(b)(2) of the Commission's rules, 47 C.F.R. § 1.1206(b)(2), this letter is being provided to you for inclusion in the public record of the above-referenced proceeding.

Sincerely,

Ruth Milkman

Enclosure

cc: Cathy Carpino
Michael Engel
Jeremy Miller
Daniel Shiman
Robert Tanner
Julie Veach

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Preserving Broadband Choice

October 15, 2002

Competitive DSL Depends on Access to UNEs

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- UNEs are essential to the provision of DSL to Businesses and ISPs:
  - xDSL capable loops, including fiber-fed loops
  - Line Sharing
  - Transport
- Configurations necessary to serve customers with competitive local voice service:
  - Line splitting arrangements
  - Access to ILEC DSL lines (UNEP/ILEC DSL)

Distinguishing Aspects of WorldCom DSL

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- **Competitive Option to businesses and ISPs**
  - BOCs do not serve businesses with DSL
  - Cable not installed near businesses
  - Cable not sufficient for business applications; not a focus for cable
  - ISPs desire competitive terms and conditions
- **Nationwide Coverage**
  - ILECs do not have aggregated network
  - Customers need only bond with one carrier
- **Owned and Managed Facilities from DSLAM to WCOM Backbone**
- **DSL Access to Multiple Network Backbones**
  - IP (Internet)
  - Frame
  - ATM
- **WorldCom Service Levels**
  - Business or consumer grade
  - Speed applications
  - QoS (including, low oversubscription rates)
  - Network SLAs
  - Customer service
  - All different from ILEC one-size-fits-all
  - Customers willing to pay for the difference

DC Circuit: Role of Intermodal Competition

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- Residential Market: Duopoly at best between cable & ILEC DSL
  - Some residential consumers have a choice between cable and DSL, but most residential consumers have access to only one supplier
  - Where both cable modem service and DSL are provided, customers are confronted with a duopoly
    - Satellite, fixed wireless and mobile wireless providers do not provide meaningful competition today for either business or residential customers
    - FCC experience with cellular duopoly shows that two is not enough; additional competitors produced great consumer gains in terms of lower prices and innovation
  - ISPs: If CLECs cannot access UNEs to serve residential market, the effect will be diminished competition for information services
    - ILEC is a competitor & supplier; ISP not on equal footing
- Business Market: Only CLECs serve businesses
  - Cable: constraints of shared architecture lead to security issues and loss of signal strength at peak times
  - ILEC DSL: no business grade product
  - CLECs: WorldCom and Covad serve business customers with DSL
    - WorldCom Business Products:
      - Internet DSL Office
      - Internet DSL Solo
      - Enterprise DSL

DC Circuit: Applying the Impairment Standard

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- CLECs need access to ILEC network to provide DSL
  - Competitive carriers cannot obtain facilities needed to provide DSL service from any entity but the incumbent LEC
  - Incumbent LECs' last mile facilities (including copper loops and fiber-fed loops) are a bottleneck that competitive carriers cannot duplicate
- CLECs are impaired without access to line-shared loops
  - Second loop often unavailable (no facilities)
  - Cost of second loop materially increases provisioning costs, and decreases efficiency
    - 2nd Line is 100% truck roll ($400 or ~$20 per month), which is not sustainable
    - CLECs at a competitive disadvantage vis-a-vis the ILEC if forced to deploy second loop for DSL
    - ILECs offer DSL products over existing loop, yielding lower cost and greater convenience

Choice is Clear: Competition Brings Attractive Options and Lower Prices

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- Broadband Market without CLECs
  - Residential options:
    - ILEC DSL
      - Little choice of ISPs today; ILECs seeking to eliminate that limited choice
    - Cable
      - No choice of ISP
  - Business options:
    - ILEC T1s
  - What's missing:
    - Sufficient competition to keep prices in check
    - Promise of innovative applications to spur on more demand
    - Lack of a competitive offering for businesses that falls between dial up and dedicated circuit

- Broadband Market with CLECs
  - Residential options:
    - ILEC DSL
    - Cable
    - CLEC DSL w/ ISP of choice
  - Business options:
    - CLEC business-grade DSL
    - ILEC T1s
  - The added value:
    - Lower consumer prices
    - Consumer choice of ISPs
    - Affordable offerings for businesses that do not need T1 or greater speeds
    - Price Comparison @ 384K thruput
      - ILEC T1 Needs Tariff ($400 - $800)
      - CLEC DSL (under $200)

The Value of Internet Service Providers

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- ISP's generate the applications customers will pay for
  - Dial-up Internet – AOL, MSN
  - Voice-over-IP – WorldCom, Net2Phone
  - Internet-based Gaming – MSN, Speakeasy
- ILECs have not generated any significant Internet applications
  - ISP's must have cost-effective access to residential broadband
- WorldCom Advantage over ILEC
  - National footprint with a single supplier
  - Both Layer 2 and Layer 3 options available
  - Low initial investment for ISP – Minimal monthly fixed cost, encourages innovation
  - End to end service delivery & support
    - CO→Backbone → ISP Application

Fiber-Fed Loops Remain a Bottleneck

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- Like copper loops, CLECs are impaired without access to fiber-fed loops (NGDLC)
  - Consistent with the D.C. Court of Appeals opinion, CLECs are impaired because they cannot obtain the facilities to provide broadband service from any entity but the ILEC
  - BOCs' proposed "alternatives" are simply not viable
    - Collocation at the RT is uneconomical
    - Maintenance of existing copper is not an option
- BOC fiber upgrades are natural evolution of existing network
  - Beginning in the 80's, Digital Loop Carrier (DLC) systems were deployed for feeder pair relief and to address quality degradation associated with extended distances in all-copper loops
  - Approximately 35% of all fixed access lines in the U.S. are currently served by DLC and NGDLC systems and the number is growing
  - Verizon admitted in New York that it has upgraded RTs for DSL that needed "POTS relief"

Collocation at the RT is Uneconomical

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- SBC, Verizon and Qwest argue that CLECs can collocate at the RT
- States have already found that Collocation at RT is uneconomical
  - In Illinois proceeding, cost per RT-DSLAM collocation cited as high as $130,000
  - Texas arbitrator found that it would cost between $15,000 to $30,000 to collocate per RT
    - "[T]he evidence presented to the Arbitrators indicates that collocating a DSLAM at the remote terminal will in most cases not only prove to be uneconomical, but also technically problematic." [Texas Revised Arbitration Award, September 2001]
  - New York PSC found that "collocation by competitors on the terms offered by Verizon's tariff at these remote terminals is under many circumstances prohibitively costly and slow, and unlikely to be commercially viable." [NY DSL Order, October 2000]
- Assuming 20 RTs per CO, and an average cost of $22,500 (the average of $15,000 and $30,000), CLECs would need to spend an additional $450,000 *per central office* in collocation costs

Use of Existing Copper is Not an Option

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- REACH: With access to both fiber-fed and copper loops, ILECs will have a competitive advantage over CLECs
- INTERFERENCE/QUALITY: Additionally, the incumbent LECs' DSL service may interfere with CLEC DSL service provided on all-copper loops.
  - RT-based ADSL services overpower the weaker home run copper ADSL loops that share the same distribution facilities [See FCC's Network Reliability and Interoperability Council (NRIC V) FG3 Report]

Argument that Unbundling Will Halt Further Investment is Unsupported

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- SBC's regulatory claims are not consistent with what they have told Wall Street
  - SBC:
    - Despite its claim that it has slowed its broadband build out due to the uncertain regulatory requirements, "SBC ended 2001 with more than 5,800 neighborhood broadband gateways in service, up from approximately 2,000 at the beginning of 2001." [SBC Investor Briefing at 5 (Jan. 24, 2002)]
    - SBC also told investors that, with the Project Pronto initiative, it will attain "annual savings of $1.5 Billion by 2004" and that the "capital and expense savings pay for [the Project Pronto] initiative on [a net present value] basis." [SBC Investor Briefing, at 2 (Oct. 18, 1999)]
- States have rejected this claim

ILEC Service is No Substitute for UNE Access

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- Verizon's PARTS tariff highlights reasons why CLECs need UNE access to fiber fed loops
  - The rates offered under Verizon's PARTS tariff are unreasonably high and tend to create an anticompetitive "price squeeze."
    - For example, the nonrecurring charge of $220 per PVC is unreasonable as it significantly exceeds the $60 nonrecurring charge that Verizon assesses when selling DSL services through its Tariff FCC No. 20
  - Moreover, Verizon's InfoSpeed Tariff (No. 20) makes no distinction between service over copper loops and service over NGDLC facilities
  - CLECs cannot distinguish their services
- Services are not afforded same protections as UNEs
  - Without the protection of the Act, the broadband "service" is subject to modification or even revocation at the whim of the ILEC.
  - Tariffing may not be required in future (Dom/Non Dom)
  - Current broadband "services" (like Verizon's PARTS), are priced subject to different pricing standard

Line Splitting: Delivering Broadband Access to End Users with CLEC Local Service

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- DSL service not an option for MCI Local customers
- MCI evaluating Line Splitting (CLEC voice/CLEC data)
  - MCI-WCOM line splitting trials in New York and Texas
    - DSL added to MCI Local line
    - 6-10 employee customers in each market
- Testing ordering processes for adding and disconnecting DSL to existing UNEP line
    - OSS ordering processes
    - Measure outage problems/trouble handling
    - Adding features to UNEP line
    - Billing issues
- Successful trial first step towards offering DSL to MCI Local customers

Enabling ILEC Broadband Users to Have a Choice of Local Providers

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- Over 4.5 million people cannot switch their local voice provider because they have DSL service from SBC, VZ, BST or Qwest
- ILECs refuse to continue providing DSL to customers who seek to change their local voice carrier
- No technical reason why these customers cannot enjoy both competitive voice service and ILEC DSL
- States are investigating
  - MI, MD, LA, GA, FL